

Share Class (Principal series)	NAV	January 2006		2006 Year to Date		Since Inception [†]	
		Fund (%)	FT World (%)*	Fund (%)	FT World (%)*	Fund (%)	FT World (%)*
Class A - US\$	US\$123.21	+1.06	+3.02	+1.06	+3.02	+23.21	+58.20
Class B - £	£132.57	+1.09	+0.50	+1.09	+0.50	+32.57	+32.12
Class C - €	€24.18	+0.91	+0.52	+0.91	+0.52	+24.18	+19.19

*The FT World Share Index in the currency of the respective share class - Source: FT/Bloomberg

†1st October 2001

After the strong finish to last year, we are pleased to report that the Absolute Fund made a very solid start to 2006. On a rolling twelve-month basis, returns (after all fees) stand at 6.7%, 7.8% and 5.4% for the US\$, £ and € share classes respectively. As always, these gains have been achieved with minimal levels of net market risk and also without recourse to the more speculative hedge funds and strategies which have proliferated in number since 2003.

Even though the headline return was smaller, in terms of attribution January's performance was perhaps even more satisfying than December's. In December, our largest (20%) allocation to Japanese equity long/short funds contributed almost two thirds of the month's return whilst the rest of the portfolio was frankly a bit lacklustre. In contrast, January's return was broadly-based with seven out of the ten sub-strategies contributing 10bps (0.1%) or more to overall performance. The three most profitable sub-strategies were Event-driven (33bps), Distressed Securities (24bps) and European Equity Long/Short (21bps). The three losing strategies included two of the usual suspects in rising markets: Short-bias Equity (-14bps) and Short-bias Credit (-1bp). The disclosure of the third sub-strategy which lost money in January as Japanese Equity Long/Short (-3bps) may come as a surprise to readers who, like us, have become used to it being a major contributor to performance. The Japanese stock market had a roller-coaster ride in January, plunging by more than 6% after the revelation of a financial scandal at internet/media company Livedoor but then rallying strongly to finish the month with a gain of more than 3%. 'V-shaped' market gyrations as extreme as this are particularly challenging for many hedge fund managers because risk management to limit losses in a sell-off takes precedence, resulting in lower exposure to any subsequent rally. Whilst it is frustrating that we did not make money in our biggest allocation in January, it is encouraging that we had a 1% month nonetheless.

This distribution of returns at underlying fund level in January was also highly satisfactory and exhibited the desired skew. 32 out of 43 were profitable, out of which 14 made more than 2%. Just six funds lost more than 2% but this included all three Short-bias Equity funds. In a further endorsement of our risk management with respect to sizing of underlying investments, 5 out of the 6 funds which were down by more than 2% were 'half-sized' investments so the aggregate impact on overall performance was muted.

Biggest 5 Holdings as at 31st January 2006

Name of Fund	%	Strategy	January (%)	Year to Date (%)
JLS8	3.4	Japanese Equity Long/Short	+1.3	+1.3
JLS11	3.3	Japanese Equity Long/Short	+2.6	+2.6
JLS5	3.2	Japanese Equity Long/Short	(3.9)	(3.9)
JLS10	3.2	Japanese Equity Long/Short	+0.4	+0.4
DHY11	3.2	Asian Distressed	+0.9	+0.9

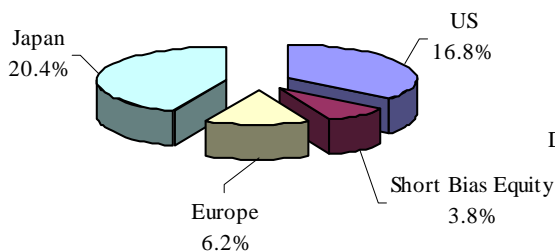
Best 3 Funds in January

Name of Fund	%	Strategy	Jan	YTD
ELS12	1.9	European Equity L/S	+5.4	+5.4
ELS13	1.7	European Equity L/S	+5.0	+5.0
ED7	2.7	Event-Driven	+4.6	+4.6

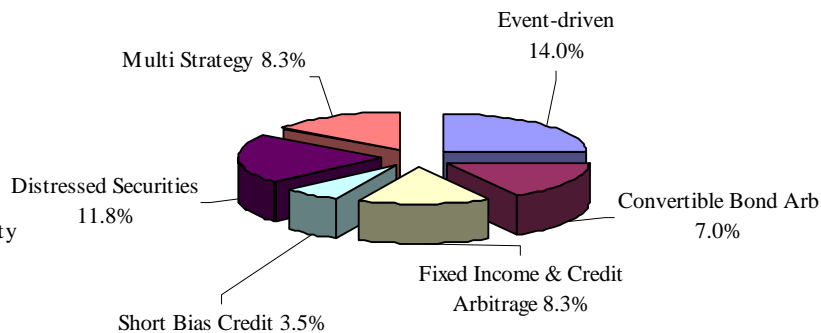
Worst 3 Funds in January

Name of Fund	%	Strategy	Jan	YTD
USLS15	1.3	US Equity L/S	(5.3)	(5.3)
SBE2	1.5	Short Bias Equity	(4.3)	(4.3)
JLS5	3.2	Japanese Equity L/S	(3.9)	(3.9)

Equity Long/ Short (47.2%)



Arbitrage & Other (52.8%)



Strategy & Outlook

In January, the prospect increased of concurrent interest hikes by the world's three major Central banks, the oil price rose by 11% to stand 56% higher than it began last year, consumer spending weakened and evidence began to emerge that growth in corporate profits may have peaked. None of these factors are traditionally helpful for stock markets but share prices continued to rise nonetheless, extending the rally in the local currency FT World Share Index since its nadir in March 2003 to 92%. Indeed, the 11% surge in the MSCI Emerging Markets Index in January and the strong performance of many small-cap indices suggests that investors still have considerable appetite for risk. The financial world remains awash with liquidity seeking returns and, barring some exogenous shock, this seems unlikely to disappear overnight.

These are frustrating times to be marketing and managing the Absolute Fund as its returns, whilst more than respectable in absolute terms and compelling on any risk-adjusted basis, appear unexciting when compared with equity market indices and also some of our peers. It is evident that many funds of funds are embracing greater risk in pursuit of more 'competitive' returns. We were stunned to calculate recently that the HFRI Fund of Funds Index (which is a widely-quoted index of our peers' performance) was 86% correlated to the FT World Share Index in 2005. As a figure of 100% would represent 'perfect' correlation, this is a clear sign of the directional market exposure which now exists in many funds of hedge funds. Of course, high correlation is no bad thing as long as markets continue to climb but we suspect that many investors will be shocked and disappointed by the magnitude of losses they may sustain in supposedly hedged investments if and when markets suffer a serious decline. The Absolute Fund's correlation to the FT World Share Index in 2005 was substantially lower at 50% but still higher than we would like. Since inception at the beginning of 1999, the correlation of the Absolute Fund strategy with the FT World Share Index stands at 34% which is close to being statistically insignificant whilst the equivalent figure for the HFRI Fund of Funds Index is 56%. Needless to say, the Absolute Fund therefore exhibits far superior performance characteristics in falling markets. However, this is not a message many potential investors are receptive to at the current time!

Despite this, we will resist any temptation to make major changes to the Absolute Fund's strategy. In particular, we will not increase risk in the form of net market exposure or start making allocations to more directional or speculative funds. Instead and as always, the Absolute Fund's returns will continue to be derived principally from the skills of the managers we select in identifying overvalued and undervalued securities. We remain convinced that this strategy is capable of delivering annual returns of 'cash plus 4-6%'. This may not sound like very much in the current climate but history has shown that compounding at this rate is hard to beat.

As always, we welcome your questions, comments and suggestions.

Charles Hovenden & Christopher Aldous

22nd February 2006

Manager's Track Record & Summary Statistics (for Class A US\$ shares)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
1999	0.83	1.07	0.96	2.60	1.43	0.74	1.61	0.37	0.81	0.70	2.46	0.57	15.05
2000	1.36	3.21	1.87	(0.03)	1.01	1.63	0.98	0.80	0.83	0.17	(0.28)	0.58	12.77
2001	0.87	0.41	0.36	0.38	0.62	(0.32)	(0.10)	0.68	(0.19)	0.39	0.24	0.63	4.02
2002	0.49	(0.01)	0.82	0.65	0.41	(0.52)	(0.78)	(0.04)	(1.07)	(0.42)	0.18	0.83	0.53
2003	0.67	0.30	(0.01)	0.46	0.61	0.60	0.36	0.86	0.84	1.41	0.10	0.82	7.24
2004	1.00	0.26	0.87	0.51	(0.74)	0.75	0.01	0.04	0.45	0.22	1.14	1.02	5.66
2005	0.18	0.79	0.34	(0.47)	(0.56)	0.44	0.94	0.70	1.23	(0.23)	0.68	1.57	5.73
2006	1.06												1.06
Annual Rate of Return			7.26	Sharpe Ratio (@ 5% risk free)				0.92	Biggest Monthly Loss				(1.07)
Standard Deviation			2.46	Correlation FT World Index (Local)				0.34	Biggest Peak-to-Trough Drawdown				(2.80)

NB: The monthly returns in the shaded portion of the 'Manager's Track Record' table are those of a portfolio previously managed by the Investment Manager of the Absolute Fund. Together with other almost identical portfolios, it was the forerunner of the Absolute Fund in terms of both investment strategy and procedures and its investments have been absorbed into the Absolute Fund. Returns prior to October 2001 have been adjusted to reflect the Absolute Fund's scale of fees. Figures from October 2001 onwards are for the Class A (Principal series) shares of the Absolute Fund.

General Information

Size of Fund:	US\$113m	Investment Manager:	Absolute Fund Management Ltd. Marquis House 67/68 Jermyn Street London SW1Y 6NY Telephone: +44 (0) 20 7925 8078 Website: www.absolutefund.co.uk
No. of Holdings:	43	Administrator:	Northern Trust International Fund Administration Services (Ireland) Ltd. George's Quay House 43 Townsend Street Dublin 2 Telephone: +353 1 670 0660
Share Classes:	US\$, £, €	Contact:	Christopher Aldous
Basic Fee:	1%		
Incentive Fee:	15% of gains between 6% & 24% p.a.		
High Water Mark:	Yes		
Dealing:	Monthly (with 35 days notice for redemptions)		
Min. Investment:	US\$100,000		
Fund Domicile:	Cayman Islands		
Listing:	Irish Stock Exchange		

Price Information

	Financial Times	Bloomberg	SEDOL	ISIN
Class A (US\$)	under The Absolute Fund Ltd	ABSFNDA KY <Equity>	3093568	KYG0060S1241
Class B (£)	"	ABSFNDB KY <Equity>	3093591	KYG0060S1324
Class C (€)	"	ABSFNDC KY <Equity>	3093610	KYG0060S1407

Risk Warning

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www.absolutefund.co.uk

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